



**CITY OF SUNNYVALE  
REPORT  
Heritage Preservation Commission**

**August 17, 2005**

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**SUBJECT:**           **2005-0552** – Application on a 9,460 square foot site located at **775 Cascade Drive** in an R-1 (Low-Density Residential) Zoning District.

Motion               Mills Act Contract for a City of Sunnyvale Local Landmark property (Collins-Scott Winery)

**REPORT IN BRIEF**

**Existing Site Conditions**           Single Family Residential

**Surrounding Land Uses**

North               Single Family Residential

South              Single Family Residential

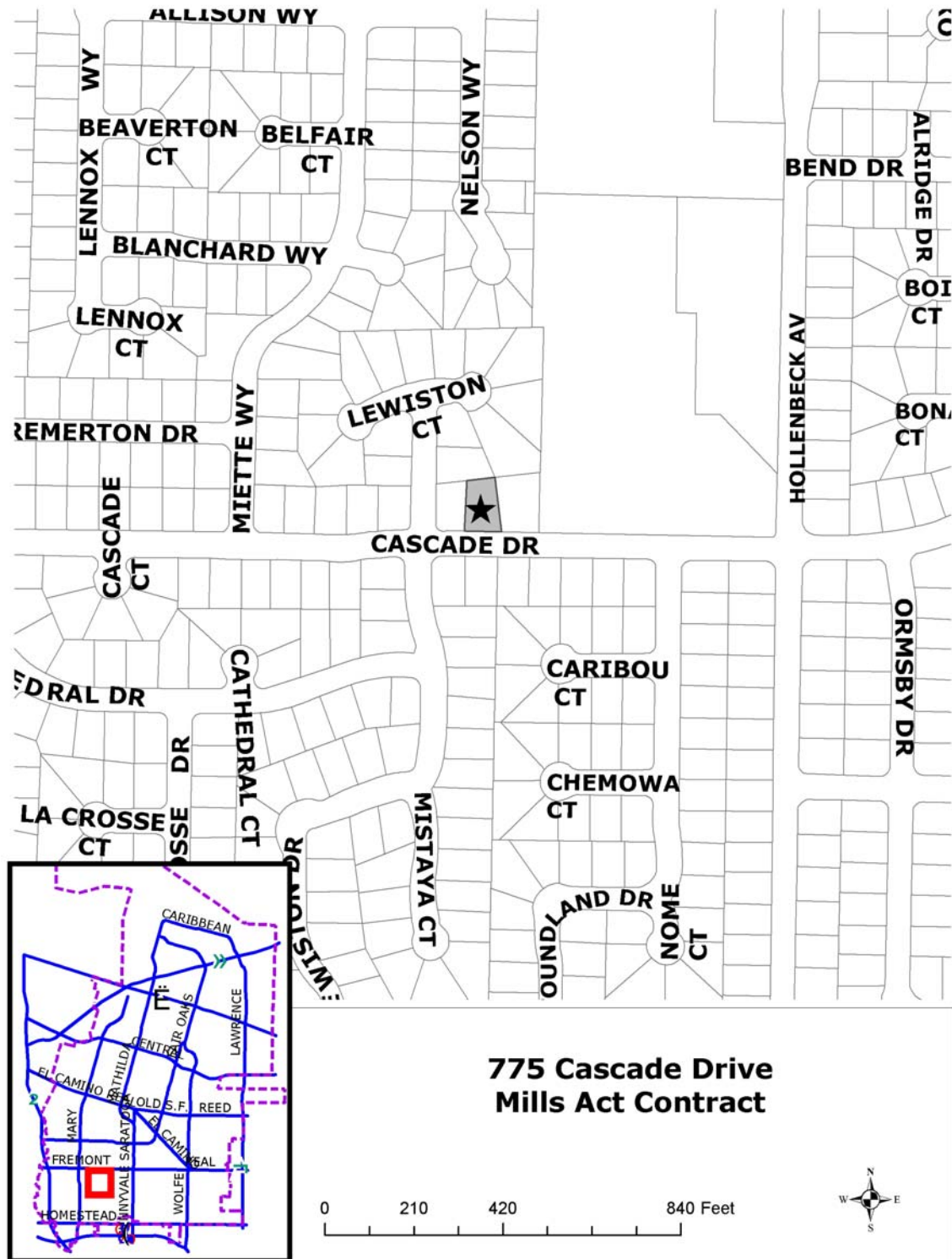
East               Single Family Residential

West               Single Family Residential

**Issues**               To be determined

**Environmental Status**           A Class 1 Categorical Exemption relieves this project from California Environmental Quality Act provisions and City Guidelines.

**Staff Recommendation**           Recommend approval of the request for Mills Act contract to City Council



**PROJECT DATA TABLE**

	<b>EXISTING</b>	<b>PROPOSED</b>	<b>REQUIRED/ PERMITTED</b>
<b>General Plan</b>	Residential Low Density	Same	Residential Low Density
<b>Zoning District</b>	R-1	Same	R-1
<b>Lot Size (s.f.)</b>	9,424	Same	8,000 min.
<b>Gross Floor Area (s.f.)</b>	4,413	Same	45% max without public hearing
<b>Lot Coverage (%)</b>	4,413	Same	3,769 max.
<b>No. of Buildings On-Site</b>	4	Same	---

**ANALYSIS****Description of Proposed Project**

The City of Sunnyvale has received a Mills Act contract request from Mr. and Mrs. Russell Schaadt, owners of the Collins-Scott Winery located at 775 Cascade Drive. This residence is listed on the City's Local Landmark resource list.

**Background**

Built in 1881 by the Collins brothers, the Collins-Scott Winery is the oldest brick building in Sunnyvale. In 1889 a private railroad was built on the property and more than 300 gallons of wine were shipped daily. In 1927 all of the buildings except the brick distillery were destroyed by fire. In 1965 the present owners, the Duane Heinlen family, remodeled the structure as it stands today. For more information on the history of the Collins-Scott Winery, see Attachment B.

**Previous Actions on the Site:** The following table summarizes previous planning applications related to the subject site.

<b>File Number</b>	<b>Brief Description</b>	<b>Hearing/Decision</b>	<b>Date</b>
1965-0051	Side yard variance for addition to residence	Approved	12/27/1965
1963-0043	Side yard variance for new car port	Approved	10/14/1963

### **Environmental Review**

A Class 1 Categorical Exemption relieves this project from California Environmental Quality Act provisions and City Guidelines. Class 1 Categorical Exemptions include existing facilities.

### **Mills Act Contract**

**Mills Act:** The Mills Act was adopted in 1984. The Mills Act provides a means to reduce property taxes on historic property in exchange for an agreement that the owners maintain the property's historic character. The purpose is to encourage the renovation and maintenance of historic properties throughout the State by providing a tax incentive. It is similar to the Williamson Act, which encourages the preservation of agricultural land in return for a lower property tax rate.

The Mills Act enables local governments to enact a voluntary contract with the property owners of historic properties. The City is not obliged to enter into contract even if the properties are eligible. The contract extends for an initial term of 10 years. It will automatically renew each year on its anniversary date creating a new 10 year agreement unless a notice of non-renewal is provide by the property owners. In such case, the contract will terminate at the end or the current 10 year term.

In order for a property to be eligible, it must be listed on the National Register of Historic Places, be listed on the California Register of Historic Places, or listed on the City's register. The Collins-Scott Winery qualifies since it is designated as a Local Landmark on the City's list of heritage resources.

**Responsibility of Parties:** The property owner must agree to restore (if necessary) and maintain the property in a manner appropriate to its historic character. The local government is responsible for monitoring the property to ensure that the agreed to restoration and/or maintenance has been complied with. Many communities use the Secretary of Interior's Standards for Rehabilitation as their restoration standards. However, each community makes its own determination as to what will be required of property owners.

Should the City decide the property owner has breached the contract conditions, the City can bring legal action against the owner or simply cancel the contract. If the contract is cancelled for this reason, a penalty of 12.5% of the market value of the property at the time of cancellation is assessed.

Although the contract is initially made between the property owner and the City, it remains with the property even after it is sold. When the property transfers, it is not re-assessed at its new market value, thereby allowing the

new property owners to enjoy a pre-existing reduced tax rate. This can contribute to the overall value of the historic property. It should be noted that, because of this property's recent purchase (2003), the current tax on this property is close to the market rate.

### **Discussion**

There are three variables that affect the computation of property tax charged to owners of properties with Mills Act contracts: 1) the income to be capitalized (minus the expenses), 2) the allocation of value between land and the improvements, and 3) the depreciation rate used for the improvements.

The exact amount of tax loss incurred by the City cannot be determined in advance since the County Assessor makes the final decision on the projected rental income only after receiving a signed Mills Act contract from the City. In the following section, there is an estimate of the tax loss to the City. It is only an estimate since the known rate for rental of comparable properties has been estimated by the property owner, not the County Assessor's Office.

The County Assessor also determines the allocation of value between the land and its improvements. In 2003, the assessed value of the property was \$711,700. The assessed value of the land was \$323,500 and value of the improvements was \$388,200, for a ratio of 45% for the land and 55% for the improvements. This percentage rate is subject to change at the time when a signed contract is received.

The amount of property tax generated by the property under a Mills Act contract would not increase after resale since the property is not re-assessed at the current rate, but the amount of projected rental income potentially received by the property will increase. This increase in income base will increase the amount of taxes to be collected. The Assessor's Office will make annual projected rental income adjustments during the yearly renewal of the contract. The amount of tax collected without a Mills contract would also increase or decrease slightly each year, depending on how and when the County raises or lowers the base assessment value for the property.

**Formula Applied to the Collins-Scott Winery House:** The following is an estimate intended to illustrate how the Mills Act formula would be applied to the Collins-Scott Winery House.

Under the Mills Act, the estimated income from a property is divided by the capitalization rate to find the new assessed value. The new assessed value is then multiplied by the annual tax rate to determine the annual tax on the property.

**Terms:**     Estimated Income = Projected Income – Projected Expenses  
                  Capitalization Rate = Loan Mortgage Rate + Historic Property Risk  
    Component + tax rate + depreciation rate (applied to  
    improvements)

**Formula:**

The following are projected on an annual basis

Projected Income:	\$36,000 (\$3,000 x 12 months)
Projected Expenses:	<u>\$12,090 (\$120,900/10 years)</u>
Estimated Income:	\$23,910
Capitalization Rate:	16.7% (9.5% + 4% + 1.12% + 2.1%)
New Assessed Value:	\$143,173 (\$23,910/16.7%)
Annual Tax Rate:	1.12%
Estimated Annual	
Tax:	\$1,604 (1.12% x \$143,173)

At present the assessed value of the property is \$711,700. This is multiplied by the annual tax rate of 1.12% (less the homeowners exemption) resulting in an annual property tax of \$7,985. Sunnyvale's share of this is 12% or approximately \$958.

If a Mills Act contract were approved for this property, the property owner would save approximately \$6,381 per year, as shown in the following calculation:

Current Property Tax:	\$7,985
<u>Estimated Property Tax:</u>	<u>\$1,604</u>
Projected Savings:	\$6,381

Under the projected Mills Act property tax rate, Sunnyvale would receive approximately \$193 per year, resulting in a tax loss of approximately \$765 per year. The remaining property tax revenue is shared by the Community College Districts, the local school districts (e.g. Fremont Union High School district, Cupertino Union School District), Santa Clara County, the Santa Clara Water District, and various other agencies with bonded indebtedness which is being repaid by property tax revenues.

**Other Sunnyvale Mills Act Properties:** The Mills Act contract proposed for the Collins-Scott Winery is similar to previously approved contracts for the Wright Ranch (1991) and the Spalding House (1992). If the contract is approved for the Collins-Scott Winery home, then three of the six residential properties listed on the City's Local Landmark register will be under Mills Act contract. The three remaining residential properties will be the Briggs-Stelling House, the Stowell House, and 505 S. Murphy house. The three industrial properties listed on the City's Local Landmark register are also eligible for Mills Act contracts.

### **Fiscal Impact**

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There will be a loss of property tax to the City, the County, the local School District, and other local agencies which obtain revenue from property taxes. The City's share of this loss would be \$765 per year.

### **Public Contact**

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<b>Notice of Public Hearing</b>	<b>Staff Report</b>	<b>Agenda</b>
<ul style="list-style-type: none"> <li>Published in the <i>Sun</i> newspaper</li> <li>Posted on the site</li> <li>9 notices mailed to property owners and residents adjacent to the project site</li> </ul>	<ul style="list-style-type: none"> <li>Posted on the City of Sunnyvale's Website</li> <li>Provided at the Reference Section of the City of Sunnyvale's Public Library</li> </ul>	<ul style="list-style-type: none"> <li>Posted on the City's official notice bulletin board</li> <li>City of Sunnyvale's Website</li> <li>Recorded for SunDial</li> </ul>

### **Conclusion**

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**Discussion:** The following section focuses on whether or not the City should enter into a Mills Act contract for the Collins-Scott Winery home. The discussion includes three areas: 1) the cost incurred by the City, 2) the benefit of maintaining the property in sound condition as a valued historic resource, and 3) an analysis of the suitability of a Mills contract with the Collins-Scott Winery home.

**The Cost:** As previously discussed, the exact amount of tax loss incurred by the City cannot be determined in advance since the County Assessor makes the final decision on the projected rental income only after receiving a signed Mills Act contract from the City. The estimated tax loss to the City would be approximately \$765 per year. Staff believes this loss of property tax for the City is minimal, given the benefits described in the section below. The following calculation summarizes the current and projected annual financial costs:

Current Property Tax:	\$7,985 (\$711,700 x 1.12%)
<u>Estimated Property Tax:</u>	<u>\$1,604 (1.12% x \$143,173)</u>
Savings to Property Owner:	\$6,381

Current City Share of Property Tax:	\$958 (\$7,985 x 12%)
<u>Estimated City Share of Property Tax:</u>	<u>\$193 (\$1,604 x 12%)</u>
<b>Financial Loss to City:</b>	<b>\$765 per year</b>

**The Benefit:** When the Heritage Landmark status is given to a Sunnyvale property, it provides the City with control over proposed changes to the exterior of the buildings, and in some cases, the grounds. The Heritage Preservation Commission must approve a Landmark Alteration Permit submitted by the property owner before such changes can occur. The property owners also cannot demolish the structures without first receiving approval from the Heritage Preservation Commission.

There are no financial incentives (other than the Mills Act) available to owners of historic properties to encourage renovation or repair of their properties. The Mills Act was designed specifically to meet this need; providing an opportunity for local governments to assure that their historic resources are properly maintained by private owners. The property owner's benefit is primarily the ability under the Mills Act to spend money on their properties that otherwise would have been given to taxes. Property owners do also benefit, in a social sense, from the increased status given to the property by the Local Landmark designation. Staff believes these benefits outweigh the minimal loss of property tax to the City annually.

**Analysis of Mills Contract for Subject Property:** The Collins-Scott Winery House has undergone several renovations, including conversion of the structure from distillery to residence, major addition to the rear of the home, and addition of several out buildings throughout the site. Current and past property owners have all worked to improve and restore this property to its present state. The structure was never allowed to deteriorate to the degree that it was threatened with demolition. From staff's perspective, this indicates that the property owner's are willing to work with this property to preserve this landmark as part of Sunnyvale's history for present and future residents.

Staff believes that the list of future restoration and repairs proposed for the property, as submitted by the applicant (Attachment F), are wholly appropriate for this structure and property. These repairs and upgrades are a necessary part of the continual maintenance of structures constructed near the turn of the century.

It should be noted that staff is recommending a condition of approval that the applicant submit a detailed timeline, outlining the maintenance schedule items over the next 10 years. This schedule is a flexible timeline, although the property owner must have any modifications to the timeline approved by City staff prior to alteration. It is important for all changes to the schedule to be approved by the City, so when annual staff inspections of the property occur, it will not appear that the Mills Act contract has not been fulfilled by the property owner.

Staff is also recommending a condition of approval for all plans (landscape plan, building plans, exterior alterations, etc.) be submitted to staff for review prior to submission for the appropriate City permits or prior to the start of work. This will allow staff to review these changes to ensure they are in keeping with the historic character of the residence.

**Conditions of Approval:** Conditions of Approval are located in Attachment A.

### **Alternatives**

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1. Approve the request for a Mills Act contract.
2. Deny the request for a Mills Act contract.
3. Direct staff to where additional work is needed on this application.

**Recommendation**

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Recommend Alternative 1 to the City Council.

Reviewed by:

Trudi Ryan, Planning Officer

Reviewed by:

Robert Paternoster  
Director of Community Development Department

Prepared by: Steve Lynch, Project Planner

Approved by:

Amy Chan  
City Manager

Attachments:

- A. Recommended Conditions of Approval
- B. Historic Information from *Images: Sunnyvale's Historic Resources*
- C. Letter from the Applicant
- D. Site Plan
- E. Photos of Property
- F. List of Future Restoration and Repairs
- G. Mills Act Agreement

**Recommended Conditions of Approval – Mills Act Contract**

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In addition to complying with all applicable City, County, State and Federal Statutes, Codes, Ordinances, Resolutions and Regulations, Permittee expressly accepts and agrees to comply with the following conditions of approval of this Permit:

Unless otherwise noted, all conditions shall be subject to the review of approval of the Director of Community Development.

**GENERAL CONDITIONS**

- A. This initial Mills Act contract is valid for a period of 10 years.
- B. The City reserves the right to cancel this Mills Act contract at any time.
- C. The applicant shall submit a detailed timeline, outlining the maintenance schedule items over the next 10 years. This timeline shall be approved by the Director of Community Development prior to submission of the contract to the County for approval.
- D. All plans pertaining to maintenance, alteration, upgrade, repair, restoration, etc. to the property, shall be submitted to City staff for review and approval prior to the work being started.